

Message Text

CONFIDENTIAL

PAGE 01 BEIRUT 14748 101645Z

44

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EB-03 SP-02 L-01 INR-05 NSC-05

NSCE-00 PRS-01 RSC-01 CIAE-00 /039 W

----- 013760

R 101606Z DEC 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 1749

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY CAIRO

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BONN

C O N F I D E N T I A L BEIRUT 14748

LIMDIS

E.O. 11652: GDS

TAGS: EFIN

SUBJ: CENTRAL BANK GOVERNOR'S COMMENT ON RECENT DEVALUATION
OF LEBANESE POUND

REF: BEIRUT 13652

1. (BEGIN SUMMARY) IN A FRANK AND CONFIDENTIAL DISCUSSION
WITH EMBOFF CENTRAL BANK GOVERNOR (SARKIS) REVIEWED BACK-
GROUND PROMPTING RECENT CENTRAL BANK INTERVENTION TO
DEVALUE LEBANESE POUND IN TERMS OF U.S. DOLLAR. BASIC
CONSIDERATION WAS NECESSITY TO TAKE STEPS TO IMPROVE
COMPETITIVE POSITION OF LEBANESE INDUSTRY IN FACE OF
ANTICIPATED INCREASINGLY DIFFICULT TIMES AHEAD. (END
SUMMARY)

2. RECALLING THAT LEBANESE POUND IN RECENT YEARS HAD
APPRECIATED BY ABOUT 27 PERCENT AGAINST A MIX OF EUROPEAN CUR-
RENCIES, AND EVEN MORE SO VIS-A-VIS THE U.S. DOLLAR AND
THE POUND STERLING, SARKIS REMARKED THAT FURTHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 14748 101645Z

APPRECIATION WOULD HAVE HAD SERIOUS ADVERSE EFFECT

ON LEBANESE INDUSTRY AND SERVICES. ALREADY IN 1973 THERE WAS A CURRENT ACCOUNT DEFICIT OF LL 375 MILLION, WHICH EXCEEDED THE TOTAL CURRENT ACCOUNT DIFICIT OF THE PREVIOUS SIX YEARS. MOREOVER, MANY OF THE BANKS WERE SPECULATING ON A FURTHER DROP IN THE DOLLAR BELOW LL2.20. ADDED TO THIS SITUATION WAS THE JUDGEMENT THAT THE FUTURE HELD IN STORE THREE DEVELOPMENTS WHICH WOULD PLACE EVEN FURTHER STRAINS ON THE ECONOMY. THESE WERE A) THE OPEING OF THE SUEZ CANAL; B) THE DEVELOPMENT OF INDUSTRY IN NEIGHBORING ARAB STATES, AND C) THE HUGE INCREASE IN THE COST OF CRUDE IMPORTS ONCE THE AGREEMENT WITH IRAQ OF 1.5 MILLION TONS ANNUALLY (AT ABOUT \$3 PER BARREL) EXPIRED AT THE END OF 1975. IN ORDER TO ENABLE THE ECONOMY IN GENERAL AND INDUSTRY IN PARTICULAR TO ABSORB THESE ANTICIPATED DEVELOPMENTS, SOME RELIEF TO EXPORT-ORIENTED INDUSTRY WAS REQUIRED NOW. A GOAL OF DEVALUATING THE LEBANESE POUND BY 7 OR 8 PERCENT, I.E., LESS THAN THE 10 PERCENT INTEREST PAID ON DOLLARS WAS CONSIDERED REASONABLE, AND HEAVY INTERVENTION (ABOUT DOLLARS 550 MILLION) MADE TOWARD THAT END. AS A RESULT, THE DOLLAR ROSE TO ABOUT 2.33 AND HAS HELD AT THAT LEVEL WITHOUT FURTHER INTERVENTION.

3. Sirkas claimed his measures had the overwhelming support of the industrial community (which is no doubt true). Other sectors were less happy but he considered that the country's industrial development merited first priority. He commented that he was greatly disturbed by what he considered one unjustifiable criticism that attacked his reasoning, if not his integrity, particularly as he was obliged to maintain silence.

4. COMMENT: THE PRIORITY GIVEN BY SARKIS TO INDUSTRIAL DEVELOPMENT IS CERTAINLY LOGICAL ENOUGH IN LIGHT OF LONG TERM CONSIDERATIONS. IN THE SHORT TERM CONTEXT, IT REMAINS TO BE SEEN HOW MUCH THE INCREASED INFLATIONARY PRESSURE CAUSED BY TTE DOOLLAR SALES WILL RESULT IN CLEAR RESTRICTIVE MEASURES UNFAVORABLE TO THE VERY INDUSTRIAL DEVELOPMENT THAT IS DESIRED.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BEIRUT 14748 101645Z

HOUGHTON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, ANTIINFLATIONARY PROGRAMS, DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 DEC 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BEIRUT14748
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740358-0458
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741248/aaaabpbq.tel
Line Count: 108
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: BEIRUT 13652
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 02 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 MAY 2002 by elyme>; APPROVED <25 MAR 2003 by CunninFX>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CENTRAL BANK GOVERNOR'S COMMENT ON RECENT DEVALUATION OF LEBANESE POUND
TAGS: EFIN, LE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005